Study: Purchasers want SCM software to be comprehensive

BY JENNIFER L. BALJKO
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Although purchasing managers are knowledgeable about available supply-chain technology tools and would like to implement such solutions, many are unable to find an across-the-board application to handle all their needs, a recent survey from American Management Systems Inc. found.

About 40% of those polled a couple of weeks ago at the National Association of Purchasing Management's conference said they were forced to use more than one electronic-procurement solution to perform basic purchasing and contracting duties, said AMS, a Fairfax, Va.-based consulting firm.

Taking a piecemeal approach creates inefficiencies in form duplication, multiple database-management efforts, and higher IT costs, industry observers indicated. That, in turn, can increase costs and dampen anticipated savings from those tools.

"The AMS survey illustrates that a large majority of organizations continue to rely on stovepipes of automation to support purchasing and contract-management processes, making it difficult for procurement professionals to effectively manage and control expenditures," said Tim Minahan, an analyst at the Aberdeen Group's e-commerce research group.

Purchasing managers said there were several areas, such as electronic cataloging and contracting tools, that were of particular concern to them.

For example, while buyers acknowledged the benefit of electronic catalogs, two-thirds of those polled noted that they do not have such functionality in place. Similarly, 86% of managers said they were aware of and wanted a single-entry search engine for multiple electronic-catalog comparison pricing, but 75% of them do not have this capability, the survey found.

On the contracting side, one-third of the respondents said they could not easily place orders against a master contract, even though 94% of them want that capability. Nearly half of those polled noted that they did not have the ability to select contract sources, although 74% of them wanted it.

To offset challenges they meet when implementing software procurement tools, procurement officials said they have a number of requirements for supply-chain-integration solution vendors. Purchasers would like solution providers to

Satisfactory all-in-one IT for buyers is elusive.

consider offering services such as post-implementation support, end-user training, system customization, change management, and business-process re-engineering.

"We at AMS have long suspected what the survey has now quantified—most procurement and contracting models simply aren't robust enough to fully support the e-procurement needs of large organizations," said Beth Palmer, senior principal of AMS' Procurement Solutions Group. "Purchasing managers want complete solutions—state-of-the-art software combined with first-class implementation and support."

Manufacturers move to optimize supply chain

Manufacturers are using advanced planning and modeling techniques to streamline their operations and optimize their supply chain.

"Supply-chain optimization covers the whole gamut of a company's operations and relationships, from suppliers through customers, in an effort to position all company resources to most effectively meet and fulfill customer demand," says Spencer Golden, supply-chain management practice leader with Grant Thornton's Philadelphia office.

"The goal is to globally plan across the supply chain, from the company's suppliers, through its own manufacturing and distribution operations, and on to the customers," he says.

To create this globally optimal plan, a manufacturer or distributor must analyze all its processes.

"The key is integration," says Golden. The company collaborates with its suppliers and customers to produce goods for the final consumer at the right time and at the lowest possible cost. It also collaborates internally, encouraging departments and functions to work together rather than independently.

The company and its trading partners run as one large supply chain, thus improving customer satisfaction, lowering costs, and generating more revenue.

This integration is powered by information. "Supply-chain optimization replaces inventory with information," says Golden. "If you have better, more timely information, you can dramatically reduce inventory."

Instead of stockpiling raw materials and work-in-process inventory because of uncertainty, the company implements a sophisticated planning information system. It can then better define its own process needs, as well as share information quickly and accurately with other departments and suppliers.

Knowledge is shared, uncertainty reduced, and inventory cut.

Supply-chain optimization also enables a company to cope with today's increasing level of mass customization, where customers require manufacturers and distributors to carry products tailored for their individual needs.

It is much more difficult to plan when a company has many products, each of which is selling in relatively small amounts.

"Using supply-chain optimization techniques, a company can profitably run a business in that high-mix, low-volume world," Golden says.

No secret

Growing manufacturers are surprisingly aware of the importance of optimizing their supply chain and are embracing the concept, says Golden.

The most recent *Grant Thornton Survey of American Manufacturers* found that, though larger manufacturers lead their midsized brethren in most aspects of supply-chain optimization, the smaller companies are not far behind.

For example, the most common optimization effort was advanced planning and scheduling for production and distribution. Eighty-eight percent of the large manufacturers, defined as those with sales between $500 million and $1 billion, used this technique.

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Trash Haulers Are Taking Fancy Software to the Dump

Allied Waste, Following Waste Management, to Shed SAP's Costly R/3

By Jeff Bailey
Staff Reporter of The Wall Street Journal.

Allied Waste Industries Inc., as soon as it completes its proposed $7.3 billion acquisition of Browning-Ferris Industries Inc., plans to pull the plug on a brand-new $130 million computer system that uses the complex software known as SAP R/3.
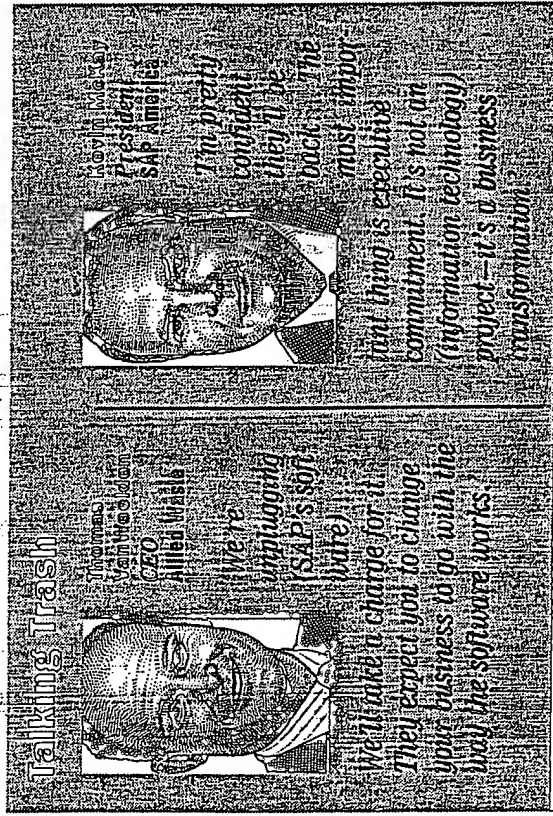
The planned move, previously undisclosed, follows a similar cancellation of a major SAP R/3 installation, one that would have cost about $250 million, at Waste Management Inc.

The promised dumping of SAP software at the two biggest trash-hauling companies reflects a move by the waste industry to a more simple, decentralized management structure. It is also among the most public rebukes received by SAP AG, the German concern that makes what is widely regarded as elegant though extremely complex software that can monitor and help manage a company's every move.

Allied Waste finds SAP too expensive and too complicated to operate. "We're unplugging it," says Thomas H. VanWeelden, chairman, president and chief executive officer of the Scottsdale, Ariz., company of the system installed by Browning-Ferris, Houston. "We'll take a charge for it," Mr. VanWeelden says, adding of SAP: "They expect you to change your business to go with the way the software works."

Waste Management, also based in Houston, pulled the plug on its SAP installation when it had spent just $45 million of the estimated $250 million. Even that larger figure, however, doesn't represent the total cost of Waste Management's initial SAP ambitions. A second phase of computer revamping using SAP R/3 would have cost an additional estimated $150 million, according to Michael T. Patton, vice president of information systems at Waste Management. And Browning-Ferris was also planning a costly phase two.

"Blessedly, neither company got a chance to spend that money," Mr. Patton says. Waste Management abandoned SAP after its $19 billion merger last year with

Talking Trash

Thomas VanWeelden CEO, Allied Waste
"We were unplugging [SAP's soft-ware]. We'll take a charge for it. They expect you to change your business to go with the way the software works."

Kevin McKay President, SAP America
"I'm pretty confident they'll be back. The most impor-tant thing is executive commitment. It's not an (information technology) project—it's a business transformation."

USA Waste Services Inc., in which USA Waste executives took control of the company, though the Waste Management name was retained.

Kevin McKay, president of SAP America, says of Allied Waste and Waste Management: "I'm pretty confident they'll be back." SAP R/3 is installed at more than 5,000 U.S. companies, he says, and about 20,000 world-wide. Mr. McKay calls cancellation "extremely rare."

SAP R/3 is so-called enterprise software that can connect and automate all the basic parts of a big company: sales, payments coming in and going out, inventory and all sorts of accounting functions.

Mr. McKay doesn't dispute that SAP R/3 customers often have to change their businesses to use the software, but he says the cost and the change is worth it because the software allow companies to operate more efficiently.

"The most important thing is executive commitment," he says. "It's not an [information technology] project—it's a business transformation."

SAP AG received just $20 million from Waste Management and between $15 mil-

lion and $20 million from Browning-Ferris for licenses to use R/3 software, Mr. McKay says. And in the phase-two installations, Mr. McKay says, SAP would have gotten a maximum of $3 million to $5 million in license fees from each company.

The remainder of the cost for the companies included consultants to implement the software, new computer hardware and "change management" consultants who help companies standardize operations and monitoring methods to adapt to R/3.

SAP did some of the consulting for Browning-Ferris, the waste company says, though it won't disclose how much. Waste Management used consultants other than SAP.

Why would the trash business need such complex and costly software? Waste Management and Browning-Ferris, long the Nos. 1 and 2 in the industry, built up big corporate staffs during the 1970s and 1980s as they were acquiring hundreds of small haulers. When industry profits were hurt by a glut of dump space and other problems in the early 1990s, both companies moved toward more centralized management structures, hoping those corporate staffs could tell field man-

agers how to operate more efficiently. But to do that, the staffs needed data from the field.

Year-2000 needs also pushed the companies to replace older computer systems, and both Waste Management and Browning-Ferris signed up for SAP R/3 in 1995. The planned installations at the waste companies would be similar in size and cost to SAP R/3 systems installed at Chevron Corp. and at Bristol-Myers Squibb Co., SAP's Mr. McKay says.

"We wanted more insight into how our processes were doing," says Stephen J. Uthoff, vice president of planning at Browning-Ferris. SAP "had something that fit us very well."

"Your processes have to change," says Mr. Uthoff, an SAP fan. "As a company that acquired so many companies, [Browning-Ferris] didn't have uniform processes. Part of our challenge was to get 500 places using standard procedures."

The early returns weren't favorable. In a May 14 filing with the Securities and Exchange Commission, Browning-Ferris says it incurred $11 million in higher costs operating with the SAP system during the six months ended March 31, "but is not yet realizing the expected benefits." The company had expected purchasing, accounting and administrative efficiencies.

For the six months ending Sept. 30, Browning-Ferris said it expected "modest benefits" from SAP. Mr. Uthoff says, "It's expensive. There is no denying that. But you have to look at this as a long-term investment. The payback is substantial."

Allied Waste and USA Waste, newer and smaller companies, were growing in recent years by acquisition and keeping their corporate staffs tiny. Their approach: let local managers run their own show and worry about their day-to-day numbers. "If corporate is worried about that as well, that's kind of redundant," says David Hunts, Allied's director of management-information systems.

Both Allied and Waste Management, after its merger with USA Waste, use less-expensive—and, the companies cheerfully admit, less-powerful—software.